

VZCZCXRO8401  
PP RUEHCD RUEHGD RUEHHO RUEHMC RUEHNG RUEHNL RUEHRD RUEHRS RUEHTM  
DE RUEHME #4494/01 2231844  
ZNR UUUUU ZZH  
P 111844Z AUG 06  
FM AMEMBASSY MEXICO  
TO RUEHC/SECSTATE WASHDC PRIORITY 2645  
INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE  
RUEHBE/AMEMBASSY BELIZE 1386  
RUEHBO/AMEMBASSY BOGOTA 3676  
RUEHGT/AMEMBASSY GUATEMALA 3470  
RUEHMU/AMEMBASSY MANAGUA 0904  
RUEHZP/AMEMBASSY PANAMA 2120  
RUEHSJ/AMEMBASSY SAN JOSE 1497  
RUEHSN/AMEMBASSY SAN SALVADOR 2344  
RUEHDG/AMEMBASSY SANTO DOMINGO 0696  
RUEHTG/AMEMBASSY TEGUCIGALPA 1564  
RHEBAAA/DEPT OF ENERGY WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 MEXICO 004494

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR WHA/MEX, WHA/EPSC, EB/ESC  
DOE FOR INTERNATIONAL AFFAIRS MPRINIOTAKIS KDEUTSCH AND  
SLADISLAW  
DOC FOR ITA/TD/ENERGY DIVISION

E.O. 12958: N/A  
TAGS: [ECON](#) [ENRG](#) [EPET](#) [MX](#)  
SUBJECT: MESOAMERICAN ENERGY INITIATIVE MOVES AHEAD DESPITE  
DOUBTS

REF: MEXICO 374 AND PREVIOUS

Sensitive but unclassified, entire text.

-----  
Summary  
-----

¶1. (SBU) Under the Mesoamerican Energy Integration Plan (PIEM), the GOM is continues to vigorously promote construction a refinery in either Panama or Guatemala to serve as an outlet for heavy Mexican crude, as well as provide development opportunities and reasonably priced energy supplies for the region. Mexican Undersecretary for Hydrocarbons, Hector Moreira, the project leader, met with energy companies in Houston July 12 to encourage participation in the effort. Participating countries and organizations met August 10 in Guatemala to develop methodology and a timetable for (1) identifying a private firm to construct the facility, or (2) selecting a firm to partner with Pemex to build the refinery. Meanwhile, Pemex CEO Luis Ramirez Corso has been quoted in the Mexican press expressing his doubts about the project's viability and necessity at the same time our GOM interlocutors dismiss his comments. While GOM officials involved understand the difficulty of attracting an international oil company to build the facility, they remain optimistic. PIEM participants will also announce a contractor to conduct a USD 600 thousand Interamerican Development Bank feasibility study for construction of a natural gas pipeline from Colombia through the region to Guatemala.

-----  
Refinery  
-----

¶2. (SBU) On July 12, 2006 Mexican Hydrocarbon Undersecretary Hector Moreira, responsible for the PIEM refinery project, briefed IOCs including ExxonMobil, Chevron, Valero, Shell and Saudi Aramco in Houston on Mexican plans for the project. Moreira sought to build interest in the construction of a

refinery in Panama, Guatemala, or any other Central American country that would want the project. The basis of the briefing was the information contained in the IDB/GOM documents on the project we previously provided to WHA/EPSC.

Moreira explained that Mexico had abandoned its earlier idea of an "empresa integradora" that would contract the crude and sell the products allowing the refinery to process crude on a fee for service basis. The GOM does appear convinced that inputs and output from the facility be provided at market prices.

13. (SBU) As previously reported (reftels), Mexico would provide Mayan crude as a feedstock through a long term contract. Econoff met with both the Chevron representative who attended the presentation, and the ExxonMobil's Country President familiar with the project. Both reported that their engineers were studying the proposal, but without some government subsidy, the rate of return for the refinery did not seem to be close to the internal thresholds necessary to consider it.

14. (SBU) The company representatives added U.S. firms were already supplying the region effectively from Gulf Coast refineries. Any production from the proposed PIEM project would result in lost sales from existing facilities. The ExxonMobil President wondered aloud, with the steep decline from Cantarell, where Mexico would get the heavy crude to load the facility, and whether Mexico would end up purchasing crude just to load the PIEM refinery.

15. (SBU) According to Luis Landa, Director General for Bilateral Economic Relations at the Secretariat of Foreign Affairs (SRE), Mexican officials met with their Central

MEXICO 00004494 002 OF 003

American partners, the IDB, and representatives of KBC, the firm that conducted the PIEM refinery feasibility study, August 10 in Guatemala to develop a final plan to engage interested companies in the project. KBC was also to present the outcome of its study to the group. While Landa said that a plan to move ahead would come out of the August 10 meeting, he told us the GOM would suggest that Pemex's marketing arm (PMI) issue an invitation, likely before the end of August, to foreign firms inviting them to build refinery. PMI would also steward the selection process.

16. (SBU) The firms invited to consider partnering in the refinery would likely be asked to pay USD 10 to 20,000 as an "information fee" giving them access to the feasibility studies done by KBC, as well as the right to interview "anyone in Central America" about the project. Once the firms paid the information fee, they would likely have a relatively short time -- about a month -- to state unequivocally whether they would want to pursue the bid.

17. (SBU) Mexico, represented by Pemex, along with Panama, and Guatemala would decide between the firms, if more than one firm wanted to move forward following the due diligence phase, though Landa admitted that it was much more likely that no company would show interest in the project. In that case, he described a "Plan B" in which Pemex, partnering with a private firm, would seek build the Central American facility.

18. (SBU) After all participants agreed on a path forward at the August 10 meeting, Landa foresaw Energy Ministers from the participating countries meeting in Panama August 25 to "bless" the agreed on process. At the August 25 meeting, Pemex would also introduce the idea that Pemex, through PMI, represent the interest of all the parties when dealing with the IOCs.

19. (SBU) Landa noted that as the companies decide whether or not to participate in the refinery project, they will be free to negotiate terms with Guatemala or Panama -- the countries selected by the KBC study -- or any other location in Central

America they wish. According to Landa, under current GOM thinking, Pemex would supply crude for the project under a long term contract at market based prices and product from the refinery would be available to the region at market prices. The host country, whether Guatemala, Panama, or any other Central American state, would offer incentives to the refinery owner such as free land, water, or electricity; tax abatements; or housing and education for refinery employees. KBC would provide all parties with a "checklist" of "appropriate" incentives for the refinery owner.

¶10. (SBU) Despite Landa's assessment of Pemex participation, Pemex officials do not all seem to support the effort. The Mexican Daily Reforma published an interview with Pemex CEO Luis Ramirez Corso in which he said supplying the PIEM refinery would interfere with Pemex's own plans to build a new train at their Salina Cruz refinery. The PIEM project, Ramirez Corso added, would need 230 thousand barrels per day or more of Mexican crude that Pemex would rather refine itself. After the article appeared, we spoke with a Pemex representative who confided that, while the company would comply with the Fox Administration's wishes, it did not see the Central American project as an attractive option.

¶11. (SBU) In response to Ramirez Corso's statements, Energy Secretary Canales said that Mexico needed to diversify its

SIPDIS

own outlets for crude. The article went on to quote an unnamed Energy Secretariat (SENER) source who said the opposing views between the government and Pemex were simply a difference in strategy, a position we also heard from SENER officials directly. We were also told that Hacienda would not approve funds for Pemex's planned expansion of the Salina

MEXICO 00004494 003 OF 003

Cruz refinery.

¶12. (SBU) In closing, Landa was realistic about the refinery's chances for success calling it "a long shot." The IOCs had told Mexico they would need refining margins "as wide as they are right now" guaranteed for the life of the project. No country could guarantee that, but Mexico would provide potential investors with guaranteed crude supply, a local market, and the country that would host the project would provide incentives. He added that KBC had suggested that a Guatemala refinery could be used as a mechanism to use Mexican crude to supply gasoline to California -- an attractive bonus. While most companies remained skeptical, Landa suggested that Valero was the most interested of the refiners.

-----  
Other PIEM Projects  
-----

¶13. (SBU) Landa added that the IDB was preparing to announce at the August 10 meeting, the consulting firm that would complete the study of the proposed Central American gas pipeline. The winning firm will receive USD 600 thousand to develop a feasibility study for the pipeline that the participating countries propose will run from Columbia, through Central America to Guatemala to supply Colombian gas to the region. Officials expect the consulting firm will have the initial feasibility study completed by October 31. The study will address pipeline routing as well as assess the likelihood that the countries could create natural gas demand through construction of distribution systems and gas fired power plants. The GOM continues to work with Central American governments on the renewable and energy efficiency agendas that are also part of the PIEM plan.

Visit Mexico City's Classified Web Site at  
<http://www.state.sgov.gov/p/wha/mexicocity>

GARZA